

Diller, Michael R.

From: Mulkern, Rita [Rita.Mulkern@mdu.com]
Sent: Wednesday, February 02, 2011 11:05 AM
To: Diller, Michael R.
Subject: RE: ND Electric Annual Reports

Yes, it is.

Rita A. Mulkern
Regulatory Analysis Manager
Montana-Dakota Utilities Co.
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(701)222-7854

From: Diller, Michael R. [mailto:mdiller@nd.gov]
Sent: Wednesday, February 02, 2011 10:47 AM
To: Mulkern, Rita
Subject: RE: ND Electric Annual Reports

Rita,
This only went to me so wondering if this is your official response to staff's observations before I close out the annual report electric cases. If so, I will docket and close. Thanks. Mike

From: Mulkern, Rita [mailto:Rita.Mulkern@mdu.com] 163
Sent: Wednesday, February 02, 2011 10:40 AM
To: Diller, Michael R.
Subject: ND Electric Annual Reports

7 PU-10-124 Filed 02/02/2011 Pages: 2
Email response to Staff Memo on MDU Electric Annual Reports
Montana-Dakota Utilities Co., a Division of MDU Resources
Group, Inc.

In its review of Montana-Dakota's annual electric reports, Staff noted some variation in the allocated share of expense categories to North Dakota, for example, Staff concludes that about 57 percent of production expenses are allocated to North Dakota while about 68 percent of transmission expenses and about 79 percent of customer service and information expenses. Similarly, about 58 percent of total operating expenses are allocated to North Dakota while about 65 percent of rate base is allocated to North Dakota.

The varying percentages for North Dakota by function reflect the Company's operations and the ratios are the result, not the allocator. Montana-Dakota's integrated system consists of the generation/transmission system providing service to customers in Montana, North Dakota and South Dakota. Wyoming operations are not a part of the integrated system and until April 2010, 100 percent of Wyoming customer requirements were provided through a contract with Black Hills Corp and Montana-Dakota has very little transmission plant in Wyoming. Therefore, the production and transmission plant reflects only the integrated system, and the integrated system transmission includes both transmission facilities serving the three states (allocated) as well as transmission serving the local (direct) area. The other functions (distribution, general and common) include plant in all states. This is evident when looking at the North Dakota ratios by function.

| <u>% of Total Plant</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------------|-------------|-------------|-------------|-------------|
| Production | 68.17% | 69.15% | 69.00% | 68.77% |
| Transmission | 61.63% | 63.39% | 64.88% | 64.58% |
| Distribution | 59.13% | 57.45% | 57.48% | 57.87% |

| | | | | |
|----------------------|---------------|---------------|---------------|---------------|
| General | 60.07% | 60.39% | 59.93% | 61.64% |
| Common | 60.81% | 58.51% | 61.64% | 61.74% |
| Total Electric Plant | <u>63.87%</u> | <u>63.95%</u> | <u>64.43%</u> | <u>64.48%</u> |

In April 2010, Montana-Dakota purchased a 25 MW share of the Wygen III plant located in Wyoming to provide a portion of Wyoming customer requirements and reduce dependence on a purchased power contract. This generation is assigned 100 percent to Wyoming and will change the ratios for production plant in the future.

The O&M expenses generally follow the allocation of plant. With respect to fuel and purchased power, North Dakota's share is slightly lower than the other functions because of Wyoming. For the integrated system, the majority of the fuel and purchased power is for fuel expense. For Wyoming, since all requirements were purchased until 2010, the purchased power would implicitly include costs that are, for the integrated system, reflected in the production plant and related expenses. With respect to customer service and information expenses, this function includes the amortization of demand side management programs, primarily commercial lighting. In Montana, the cost of these programs is part of the Universal Systems Benefit mechanism and South Dakota has not had as much activity as the other states, driving the resulting ratio of total customer service and information expenses higher than the other functions.

| <u>% of Total O&M</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|---------------------------|---------------|---------------|---------------|---------------|
| Fuel & Purchased Pwr. | 53.37% | 53.06% | 55.74% | 48.80% |
| Production | 68.50% | 69.42% | 69.21% | 69.24% |
| Transmission | 67.36% | 68.20% | 67.90% | 68.07% |
| Distribution | 56.40% | 56.99% | 55.87% | 57.42% |
| Cust. Acct. | 56.86% | 57.06% | 57.25% | 58.47% |
| Cust. Svc. | 81.58% | 79.40% | 78.23% | 79.17% |
| Sales | 67.44% | 63.24% | 63.40% | 52.09% |
| A&G | 63.62% | 63.28% | 63.54% | 63.11% |
| Total | <u>64.15%</u> | <u>64.38%</u> | <u>64.29%</u> | <u>64.65%</u> |

While reviewing the plant and expense ratios by function and taking into account the difference between the integrated system and Wyoming, the ratios do reflect the Company's operations. The Company looks forward to further discussing the assignment/allocation process with the Staff.

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